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INFO DEPT OF TREASURY WASHDC
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SENSITIVE
TAGS: EPET, ENRG, ETRD, EINV, PINS, PHUM, CO
SUBJECT: RETRENCHMENT IN COLOMBIA'S OIL SECTOR

REF: 97 BOGOTA 9859

SENSITIVE BUT UNCLASSIFIED - PROTECT ACCORDINGLY

1. (SBU) SUMMARY. DURING THE MONTH OF FEBRUARY, THE PETROLEUM

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UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: OSCAR J OLSON
DATE/CASE ID: 11 MAY 2004 200303455

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INDUSTRY WAS ROCKED BY THE ANNOUNCEMENTS OF MAJOR RETRENCHMENTS BY SEVERAL MULTINATIONALS DOING BUSINESS IN COLOMBIA. BRITISH PETROLEUM ANNOUNCED THE RETURN OF ONE OF ITS PROMISING EXPLORATION CONTRACTS; SHELL ANNOUNCED ITS WITHDRAWAL FROM ITS LAND-BASED CONTRACTS TO CONCENTRATE ON OFF-SHORE OPERATIONS; AND COMPLEX AND LASMO DECIDED TO QUIT COLOMBIA ENTIRELY. THE FOUR MULTINATIONALS CITED VARIOUS REASONS FOR THEIR SEPARATE DECISIONS; AMONG THEM SECURITY CONCERNS, PROFITABILITY ISSUES AND GENERAL GLOBAL RESTRUCTURING. THE ANNOUNCEMENTS HAVE GARNERED SIGNIFICANT PRESS COVERAGE AND, DURING A TIME WHEN COLOMBIA IS ENJOYING A RECORD YEAR FOR OIL PRODUCTION, DELIVER A REAL BLOW TO COLOMBIA'S TROUBLED PETROLEUM INDUSTRY. END SUMMARY.

BACKGROUND

2. (SBU) THE TROUBLE BEGAN WITH BRITISH PETROLEUM'S FEBRUARY 4TH ANNOUNCEMENT THAT IT WOULD RETURN 500F ITS PIEDEMONTE CONTRACT TO THE COLOMBIAN GOVERNMENT. IN RETURNING THESE 145,000 HECTARES, BP IS MERELY COMPLYING WITH THE TERMS OF ITS ASSOCIATION CONTRACT WITH
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THE STATE OIL COMPANY, ECOPETROL -- MARCH 1, 1998 MARKED THE END OF BP'S SIX YEAR EXPLORATION PERIOD AT PIEDEMONTE, AT WHICH TIME THE COMPANY WAS REQUIRED TO RETURN TO THE GOVERNMENT 500F THE UNEXPLORED AREA OF THE CONTRACT. AT THE SAME TIME, HOWEVER, BP DECIDED TO RETURN THE ENTIRETY OF ANOTHER CONTRACT TO THE GOC -- THE PIEDEMONTE WEST CONTRACT. SINCE THERE ARE THREE YEARS YET REMAINING ON PIEDEMONTE WEST'S EXPLORATION PERIOD, THE RETURN OF THIS AREA IS ENTIRELY AT BP'S OPTION AND BY NO MEANS REQUIRED UNDER THE TERMS OF ITS CONTRACT. (NOTE. REFTEL REPORTS BP'S LONGSTANDING SECURITY PROBLEMS AND ITS CONCERN THAT THESE PROBLEMS WOULD INTERFERE WITH ITS ABILITY TO DEVELOP THIS CONTRACT. END NOTE.)

3. (SBU) BP'S ANNOUNCEMENT SET OFF A FIRESTORM OF CONTROVERSY. THE PRESS REPORTED (INACCURATELY) THAT BRITISH PETROLEUM PLANNED TO "PULL OUT" OF COLOMBIA. AMYLKAR ACOSTA, PRESIDENT OF THE SENATE, CALLED BP'S ANNOUNCEMENT A "SMOKE SCREEN" AND A NEGOTIATING PLOY FOR BETTER FUTURE CONTRACT TERMS. ACOSTA FURTHER COMPLAINED THAT THE BRITISH MULTINATIONAL HAD OVERESTIMATED THE POTENTIAL OF ITS CONTRACTS ALL ALONG, THEREBY TRICKING THE GOC INTO RELYING ON MORE OIL PROFITS THAN IT CAN REALISTICALLY EXPECT. (NOTE. WHILE IT IS TRUE THAT PRODUCTION AT PIEDEMONTE HAS BEEN DISAPPOINTING, ACOSTA IS, NOT UNCHARACTERISTICALLY, GRANDSTANDING. END NOTE.)

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4. (U) NO SOONER HAD THE BP CONTROVERSY BEGUN TO DIE DOWN, THAN SHELL EXPLORATION ANNOUNCED ITS PLAN TO SELL ITS INTERESTS IN LAND-BASED EXPLORATION, SO AS TO BETTER CONCENTRATE ITS RESOURCES ON OFFSHORE GAS EXPLORATION IN THE CARIBBEAN. JANE FRASER, CHIEF OF INTERNATIONAL RELATIONS FOR SHELL OIL, TOLD POL/ECONOFF THAT SHELL'S DECISION TO LEAVE WAS DRIVEN BY A WORLD-WIDE SHIFT IN COMPANY STRATEGY, AND HAD LITTLE TO DO WITH THE SECURITY AND OTHER

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5. (U) DAYS AFTER THE SHELL/BP ANNOUNCEMENTS, TWO MORE COMPANIES -- THE ENGLISH FIRM LASMO, AND COPLEX, AN AUSTRALIAN COMPANY -- ALSO DECIDED TO LEAVE COLOMBIA. LASMO, A FIRM WITH ROUGHLY 500 EMPLOYEES IN COLOMBIA, SAID THAT IT WOULD SELL ITS COLOMBIA INVESTMENTS, PREFERRING INSTEAD TO FOCUS ON RECENT DISCOVERIES IN PAKISTAN, LIBYA, ALGERIA AND VENEZUELA. COPLEX CITED SECURITY AS ITS REASON FOR LEAVING: IN RECENT YEARS FIVE OF ITS ENGINEERS HAVE BEEN KIDNAPPED AND THE COMPANY'S OPERATIONS IN META AND VICHADA DEPARTMENTS HAVE BEEN CONTINUALLY THREATENED AND DISRUPTED. (NOTE. ALTHOUGH LASMO STRESSED THAT ITS DECISION TO LEAVE IS PURELY ECONOMIC, ITS OPERATIONS ARE LOCATED NEAR COPLEX'S IN META AND VICHADA. THERE IS NO DOUBT THAT IT EXPERIENCED SECURITY PROBLEMS SIMILAR TO COPLEX'S. END NOTE.)

6. (U) ENRIQUE AMOROCHO, PRESIDENT OF ECOPETROL, HAS TRIED TO DOWNPLAY THE DEVELOPMENTS IN THE SECTOR, ANNOUNCING THAT WITHIN THE NEXT FEW WEEKS ECOPETROL WILL SIGN AT LEAST EIGHT NEW ASSOCIATION CONTRACTS, ALTHOUGH HE DECLINED TO DESCRIBE THE SCOPE OF THESE CONTRACTS OR NAME THE COMPANIES INVOLVED. AMOROCHO EMPHASIZED THAT DESPITE THE RETRENCHMENT OF CERTAIN COMPANIES, THE NUMBER OF MULTINATIONALS AND ASSOCIATION CONTRACTS IN COLOMBIA REMAINS STABLE AT AROUND 45 COMPANIES WITH ABOUT 100 CONTRACTS, AND THAT COLOMBIA IS SEEING A RECORD YEAR IN TERMS OF PRODUCTION.

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HOW BIG A DEAL IS THIS, REALLY?

7. (U) AMOROCHO DEFINITELY EMPHASIZED THE POSITIVE IN HIS RESPONSE TO THESE ANNOUNCEMENTS. PRODUCTION IS CURRENTLY AT AN ALL TIME HIGH AND PETROLEUM HAS LONG SINCE SURPASSED COFFEE AS COLOMBIA'S NUMBER ONE EXPORT. HOWEVER, EXPLORATION IS DOWN TWO THIRDS FROM ITS HIGH IN THE 1980S AND, AS POST HAS REPORTED ON NUMEROUS OCCASIONS, COLOMBIA MUST FIND NEW RESERVES OR FACE BECOMING AN OIL IMPORTER WITHIN THE NEXT FIVE TO SEVEN YEARS. AS 250F COLOMBIA'S REVENUES COME FROM PETROLEUM TAXES AND ROYALTIES, AND ECOPETROL DOES ALMOST NO EXPLORATION, THE GOC MUST ENCOURAGE ITS MULTINATIONALS TO CONTINUE EXPLORING, AND ENCOURAGE NEW ONES TO MAKE SERIOUS EXPLORATION INVESTMENTS.

8. (SBU) IN LIGHT OF THE SERIOUSNESS OF THE GOC'S NEED TO ATTRACT INVESTMENT, FEBRUARY'S EVENTS ARE DEFINITELY NOT GOOD NEWS. THE LASMO AND COPLEX DECISIONS TO LEAVE COLOMBIA SPEAK FOR THEMSELVES; SHELL'S DECISION TO PULL OUT OF ITS ON-SHORE CONTRACTS IS ALSO A BLOW. MOREOVER, WHILE BP MAY BE STAYING IN COLOMBIA AND HOLDS CONTRACTS HERE UNTIL WELL INTO THE 21ST CENTURY, THERE IS NO DOUBT THAT THE BRITISH MULTINATIONAL IS IN THE PROCESS OF RETHINKING THE SIZE OF ITS INVESTMENT IN COLOMBIA.

9. (SBU) PIEDEMONTE WEST -- THE CONTRACT BP GAVE UP ALONG WITH 500F PIEDEMONTE -- HAS LONG BEEN CONSIDERED TO BE A PROMISING OPPORTUNITY FOR THE COMPANY. AS REFTEL REPORTS, SECURITY PROBLEMS HAVE PREVENTED BP FROM FULLY EXPLORING THE PIEDEMONTE AREA, AND FROM EXPLOITING THE FIELDS ALREADY OPERATIONAL. RITA BARRERA,

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MANAGER OF GOVERNMENT AFFAIRS FOR BP COLOMBIA, TOLD POL/ECONOFFS THAT BP COLOMBIA IS CURRENTLY IN A STREAMLINING PROCESS -- "BP IS A HUGE COMPANY AND WE HAVE TO COMPETE AGAINST OPERATIONS IN OTHER COUNTRIES FOR FUNDS." OVER THE COURSE OF THE LAST SIX MONTHS, BECOMING COMPETITIVE HAS MEANT DEEP CUTS IN BP COLOMBIA'S BUDGET, INCLUDING LETTING GO ROUGHLY ONE THIRD OF ITS BOGOTA STAFF. IN SPITE OF THESE CUTS, BP'S BARRERA IS UPBEAT: "WE ARE NOT LEAVING COLOMBIA, IN FACT, WE ARE CONTINUING OUR EXPLORATION OPERATIONS HERE. WE WILL CONTINUE TO INVEST IN COLOMBIA." THE COMPANY MAY BE STAYING HERE, BUT IT IS CLEAR THAT BP COLOMBIA WILL BE A SMALLER OPERATION THAN ENVISIONED.

10. (SBU) [REDACTED] OCCIDENTAL PETROLEUM, A COMPANY WHICH, FOR NOW, DOES NOT FORESEE ANY MAJOR SHIFTS ON ITS HORIZON, SEES THE

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PROBLEM IN COLOMBIA AS A SIMPLE PROFITABILITY ISSUE. THE OIL BUSINESS IS MORE PROFITABLE ELSEWHERE -- CONTRACTS IN COLOMBIA ARE LESS FAVORABLE, SECURITY IS AN EXTRA EXPENDITURE, DELAYS DUE TO THREATS AND/OR SABOTAGE ARE AN EXTRA EXPENSE. "THE GOVERNMENT HAS NOT FOCUSED ON OIL WITH ANY CLARITY OF MIND. COLOMBIA MUST DECIDE THAT OIL IS A PRIORITY AND WORK WITH THE MULTINATIONALS TO DEVELOP ITS CAPACITY," [REDACTED] TOLD POL/ECONOFFS. (NOTE. THIS IS UNLIKELY TO CHANGE WITH THE NEXT GOVERNMENT, AS NEITHER OF THE TWO FRONTRUNNERS HAVE PLACED ANY EMPHASIS ON PETROLEUM ISSUES. IN FACT, HORACIO SERPA HAS A LONGSTANDING ASSOCIATION WITH THE PETROLEUM WORKERS UNION WHICH RECENTLY ACCUSED THE MULTINATIONALS OF "STEALING COLOMBIA'S NATIONAL PATRIMONY." END NOTE.)

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COMMENT

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11. (SBU) THE RECENT ANNOUNCEMENTS INDICATE THAT EXPLORATION COMPANIES LARGE AND SMALL ARE RETHINKING THEIR COMMITMENT TO WORK WITH THE GOVERNMENT OF COLOMBIA IN DEVELOPING ITS OIL INDUSTRY. THE FACT THAT SECURITY AND PROFITABILITY ISSUES PLAY SUCH A PROMINENT ROLE IN THESE VARIOUS RETRENCHMENTS IS NOT A VOTE OF CONFIDENCE FOR THE GOVERNMENT OF COLOMBIA. OBVIOUSLY, THESE COMPANIES HAVE LITTLE HOPE THAT CONDITIONS HERE WILL IMPROVE ANYTIME SOON, AND THE MESSAGE SENT BY THEIR ACTIONS IS ONE THAT THE REST OF THE BUSINESS COMMUNITY IS UNLIKELY TO IGNORE.

12. (SBU) OF ALL FEBRUARY'S EVENTS IN THE PETROLEUM SECTOR, LASMO'S STATEMENT MAY SPEAK LOUDEST OF ALL: IT SOLD ITS COLOMBIA INVESTMENTS TO CONCENTRATE ON PRODUCTION IN ALGERIA, LIBYA AND PAKISTAN -- GOVERNMENTS NOTORIOUSLY DIFFICULT TO DEAL WITH AS BUSINESS PARTNERS. UP UNTIL RECENTLY, THESE COUNTRIES WERE AMONG THOSE SERVING AS THE BENCHMARK AGAINST WHICH COLOMBIA'S INDUSTRY INSIDERS MEASURED THEIR EXPERIENCES HERE. IT WILL BE A SAD DAY FOR THE GOC WHEN LASMO EXECUTIVES WORKING IN ALGERIA CAN BE HEARD TO SAY, "IT COULD BE WORSE; WE COULD BE WORKING IN COLOMBIA."
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SENSITIVE
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SUBJECT: RETRENCHMENT IN COLOMBIA'S OIL SECTOR

REF: 97 BOGOTA 9859

SENSITIVE BUT UNCLASSIFIED - PROTECT ACCORDINGLY

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9. (SBU) PIEDEMONTE WEST -- THE CONTRACT BP GAVE UP ALONG WITH 500F PIEDEMONTE -- HAS LONG BEEN CONSIDERED TO BE A PROMISING OPPORTUNITY FOR THE COMPANY. AS REPTEL REPORTS, SECURITY PROBLEMS HAVE PREVENTED BP FROM FULLY EXPLORING THE PIEDEMONTE AREA, AND FROM EXPLOITING THE FIELDS ALREADY OPERATIONAL. RITA BARRERA, MANAGER OF GOVERNMENT AFFAIRS FOR BP COLOMBIA, TOLD POL/ECONOFFS THAT BP COLOMBIA IS CURRENTLY IN A STREAMLINING PROCESS -- "BP IS A HUGE COMPANY AND WE HAVE TO COMPETE AGAINST OPERATIONS IN OTHER COUNTRIES FOR FUNDS." OVER THE COURSE OF THE LAST SIX MONTHS, BECOMING COMPETITIVE HAS MEANT DEEP CUTS IN BP COLOMBIA'S BUDGET, INCLUDING LETTING GO ROUGHLY ONE THIRD OF ITS BOGOTA STAFF. IN SPITE OF THESE CUTS, BP'S BARRERA IS UPBEAT: "WE ARE NOT LEAVING COLOMBIA, IN FACT, WE ARE CONTINUING OUR EXPLORATION OPERATIONS HERE. WE WILL CONTINUE TO INVEST IN COLOMBIA." THE COMPANY MAY BE STAYING HERE, BUT IT IS CLEAR THAT BP COLOMBIA WILL BE A SMALLER OPERATION THAN ENVISIONED.

10. (SBU) [REDACTED] OCCIDENTAL PETROLEUM, A COMPANY WHICH, FOR NOW, DOES NOT FORESEE ANY MAJOR SHIFTS ON ITS HORIZON, SEES THE PROBLEM IN COLOMBIA AS A SIMPLE PROFITABILITY ISSUE. THE OIL BUSINESS IS MORE PROFITABLE ELSEWHERE -- CONTRACTS IN COLOMBIA ARE LESS FAVORABLE, SECURITY IS AN EXTRA EXPENDITURE, DELAYS DUE TO THREATS AND/OR SABOTAGE ARE AN EXTRA EXPENSE. "THE GOVERNMENT HAS NOT FOCUSED ON OIL WITH ANY CLARITY OF MIND. COLOMBIA MUST DECIDE THAT OIL IS A PRIORITY AND WORK WITH THE MULTINATIONALS TO DEVELOP

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ITS CAPACITY," [REDACTED] TOLD POL/ECONOFFS. (NOTE. THIS IS UNLIKELY TO CHANGE WITH THE NEXT GOVERNMENT, AS NEITHER OF THE TWO FRONTRUNNERS HAVE PLACED ANY EMPHASIS ON PETROLEUM ISSUES. IN FACT, HORACIO SERPA HAS A LONGSTANDING ASSOCIATION WITH THE PETROLEUM WORKERS UNION WHICH RECENTLY ACCUSED THE MULTINATIONALS

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OF "STEALING COLOMBIA'S NATIONAL PATRIMONY." END NOTE.)

COMMENT

11. (SBU) THE RECENT ANNOUNCEMENTS INDICATE THAT EXPLORATION COMPANIES LARGE AND SMALL ARE RETHINKING THEIR COMMITMENT TO WORK WITH THE GOVERNMENT OF COLOMBIA IN DEVELOPING ITS OIL INDUSTRY. THE FACT THAT SECURITY AND PROFITABILITY ISSUES PLAY SUCH A PROMINENT ROLE IN THESE VARIOUS RETRENCHMENTS IS NOT A VOTE OF CONFIDENCE FOR THE GOVERNMENT OF COLOMBIA. OBVIOUSLY, THESE COMPANIES HAVE LITTLE HOPE THAT CONDITIONS HERE WILL IMPROVE ANYTIME SOON, AND THE MESSAGE SENT BY THEIR ACTIONS IS ONE THAT THE REST OF THE BUSINESS COMMUNITY IS UNLIKELY TO IGNORE.

12. (SBU) OF ALL FEBRUARY'S EVENTS IN THE PETROLEUM SECTOR, LASMO'S STATEMENT MAY SPEAK LOUDEST OF ALL: IT SOLD ITS COLOMBIA INVESTMENTS TO CONCENTRATE ON PRODUCTION IN ALGERIA, LIBYA AND PAKISTAN -- GOVERNMENTS NOTORIOUSLY DIFFICULT TO DEAL WITH AS BUSINESS PARTNERS. UP UNTIL RECENTLY, THESE COUNTRIES WERE AMONG THOSE SERVING AS THE BENCHMARK AGAINST WHICH COLOMBIA'S INDUSTRY INSIDERS MEASURED THEIR EXPERIENCES HERE. IT WILL BE A SAD DAY FOR THE GOC WHEN LASMO EXECUTIVES WORKING IN ALGERIA CAN BE HEARD TO SAY, "IT COULD BE WORSE; WE COULD BE WORKING IN COLOMBIA."
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